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MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

FROM :
National Intelligence Officer at Large

SUBJECT : Global Economy Paper: Where Do We Go From Here?

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1. I have reviewed the papers prepared for you so far. I have three reactions:

- o The papers cover such vast and varied ground that no clear impression or "bottom line" seems to emerge
- o The dominant treatment of cyclical over secular issues tends to obscure the more interesting long term trends
- o The papers devote inordinate attention to exploring potential problem areas that turn out to be low probability and implausible events (e.g., financial collapse, minerals war)

2. Given these characteristics, I would make the following suggestions: That we select a central theme--namely, the US emergence from present economic troubles to a period of renewed vigor and growth through at least the mid-eighties. Despite the popularity of pessimism, I strongly believe that we are on the eve of such a period. How will such a change affect US interests and relations with the rest of the world?

3. By adopting this theme, we would be able to dispose quickly of the present economic difficulties (which, in some respects, may get worse before they get better) and to concentrate on those issues that would arise from an environment in which underlying US strengths would again assert themselves. What are some of these issues? Prime candidates are:

- o A growing disparity in economic performance between the US and Western Europe will further exacerbate existing frictions in the Alliance.
- o A reinvigorated US economy, accentuated by an appreciating yen against the dollar, will usher in a period of more effective US competition with the Japanese and give rise to a more favorable assessment of our competitive strength

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- o A restoration of stronger US economic activity will provide increased market opportunities for the NICs and will stimulate the next level of LDCs to emulate NIC market-oriented policies
- o Even with enhanced OECD-wide growth, energy demand could still be insufficient to soak up all excess capacity. The policy focus would shift from potential supply interruptions to the problems of long term excess supply--stockpiling policy, protecting high-cost domestic producers, coping with reduced earnings expectations in oil exporting countries.
- o The disparity between more vigorous Western growth and a stagnating Soviet-Eastern Bloc will create dismay in Eastern Europe and raise the level of frustration in a Soviet leadership already in the throes of an uneasy succession. At the same time, these circumstances will enhance Western opportunities to employ its economic leverage in both a rewarding and punitive mode.

4. These issues are illustrative, but they are not fanciful. Their implications deserve our attention because they would grow out of an improved economic environment that this Administration's policies are designed to create.

5. If this approach has any appeal to you, I could take a stab at restructuring the paper along these lines. In any event, I am available to pursue the matter further with you, at your convenience.



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